

JIM IRVIN  
COMMISSIONER - CHAIRMAN  
RENZ D. JENNINGS  
COMMISSIONER  
C. KUNASEK  
COMMISSIONER



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JACK ROSE  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

DATE: MARCH 23, 1998

DOCKET NOS: W-02728A-97-0702 and W-01812A-97-0702

TO ALL PARTIES:

Enclosed please find the recommendation of Hearing Officer Marc Stern. The recommendation has been filed in the form of an Opinion and Order on:

PEBBLE LAKE WATER COMPANY, INC. and BERMUDA WATER COMPANY, INC.  
(SALE/TRANSFER CC&N)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Hearing Officer by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

APRIL 1, 1998

The enclosed is NOT an order of the Commission, but a recommendation of the Hearing Officer to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

APRIL 6, 1998 and APRIL 7, 1998

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

  
JACK ROSE  
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN  
3 COMMISSIONER - CHAIRMAN  
4 RENZ D. JENNINGS  
5 COMMISSIONER  
6 CARL J. KUNASEK  
7 COMMISSIONER

8 IN THE MATTER OF THE JOINT )  
9 APPLICATION OF PEBBLE LAKE WATER )  
10 COMPANY, INC. AND BERMUDA WATER )  
11 COMPANY, INC. FOR THE SALE OF ASSETS )  
12 AND TRANSFER OF THE CERTIFICATE OF )  
13 CONVENIENCE AND NECESSITY TO )  
14 PROVIDE WATER SERVICE IN PORTIONS OF )  
15 MOHAVE COUNTY, ARIZONA. )

DOCKET NO. W-02728A-97-0702  
DOCKET NO. W-01812A-97-0702

16 DECISION NO. \_\_\_\_\_

17 **OPINION AND ORDER**

18 DATE OF HEARING: March 11, 1998

19 PLACE OF HEARING: Phoenix, Arizona

20 PRESIDING OFFICER: Marc E. Stern

21 APPEARANCES: SALLQUIST & DRUMMOND, P.C., by Mr. Richard L.  
22 Sallquist, on behalf of the Applicant, Bermuda Water  
23 Company, Inc.; and

24 Mr. Peter Breen, Staff Attorney, Legal Division, on behalf  
25 of the Utilities Division of the Arizona Corporation  
26 Commission.

27 **BY THE COMMISSION:**

28 On December 15, 1997, Pebble Lake Water Co., Inc. ("PLWC") and Bermuda Water Company,  
Inc. ("Bermuda" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an  
application requesting the Commission's approval for the sale of PLWC's water utility assets and transfer  
of its Certificate of Convenience and Necessity ("Certificate") to Bermuda.

On January 30, 1998, the Commission's Utilities Division ("Staff") filed its report with respect  
to the above-captioned application recommending its approval.

Pursuant to our February 6, 1998 Procedural Order, the hearing was convened on March 11, 1998  
before a duly authorized Hearing Officer of the Commission in Phoenix, Arizona. Applicant and Staff  
appeared with counsel. At the conclusion of the hearing, the matter was taken under advisement pending  
submission of a Recommended Opinion and Order to the Commission.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

**FINDINGS OF FACT**

1. Pursuant to authority granted by the Commission, PLWC is an Arizona corporation engaged in the business of providing water utility service to approximately 400 residential customers in an area south of Bullhead City, Mohave County, Arizona.

2. Pursuant to authority granted by the Commission, Bermuda is an Arizona corporation engaged in the business of providing water utility service to approximately 3,500 customers in an area south of Bullhead City, Mohave County, Arizona.

3. On December 15, 1997, PLWC and Bermuda filed an application requesting the Commission's authorization for the sale of all of PLWC's utility assets and transfer of its Certificate to Bermuda.

4. Bermuda is paying PLWC \$90,525<sup>1</sup> for its assets, \$45,000 cash and \$45,525 to be paid pursuant to the terms of a six-month short-term note which does not require Commission approval because the note amount does not represent more than seven percent of Bermuda's total capitalization.

5. On December 19, 1997, and February 20, 1998, PLWC and Bermuda published notice of the above-described application and hearing thereon, respectively, and in response thereto, the Commission has not received any comments from customers of either utility.

6. On January 30, 1998, Staff filed its report on the application herein recommending its approval.

7. The scheduled closing date for the transaction between Bermuda and PLWC is the end of the billing cycle during the month that the Commission approves the application.

8. PLWC does not owe refunds to any customers for main extension agreements.

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<sup>1</sup> Bermuda will book the acquisition of PLWC's assets in accordance with the NARUC Uniform System of Accounts and agrees to defer the treatment of any acquisition adjustment, if any, until its next general rate proceeding. Bermuda anticipates filing its next rate application in April 1998 and intends to incorporate PLWC's financial data therein seeking uniform system wide rates. Bermuda indicated that an exhibit therein will separate out PLWC's rate base, expenses, revenues, and customer usage because of the existing base rate disparity, approximately \$6.00 per month per customer, between the two companies' existing rates.

1           9.       Bermuda has agreed to assume PLWC's obligations to its customers for any refunds for  
2 security deposits and meter and service line installations.

3           10.      While PLWC is current on its taxes, it is in non-compliance with the Arizona Department  
4 of Environmental Quality's ("ADEQ") rules with respect to its water quality.

5           11.      Bermuda does not plan to use PLWC's water production facilities<sup>2</sup>, it will rely on its own  
6 wells to provide high quality water to PLWC's certificated service area by means of one transmission  
7 line which has already been completed and is presently used as a source of back-up wholesale water and  
8 another transmission line which will be installed to complete a "looped" system with Bermuda's.

9           12.      Bermuda is in total compliance with the regulations of ADEQ and is current on its  
10 property taxes in Mohave County.

11           13.      Bermuda will continue to charge those rates and charges currently authorized by the  
12 Commission for PLWC in Decision No. 57839 (May 14, 1992) in PLWC's certificated service area and  
13 will continue to comply with the terms and provisions contained therein until its next general rate case.

14           14.      Since PLWC presently has no established tariffs on file for cross-connections, backflow,  
15 construction, irrigation and industrial service, Bermuda is requesting the Commission's approval to apply  
16 its tariffs for those services.

17           15.      Bermuda employs five certified operators to operate its water utility system who will also  
18 operate PLWC's system after its acquisition.

19           16.      Bermuda has filed a copy of its Mohave County franchise, for the area presently served  
20 by PLWC.

21           17.      Staff has recommended that the application for approval of the sale of PLWC's assets and  
22 transfer of its Certificate to Bermuda be approved subject to the following conditions:

- 23           •       that Bermuda files with the Commission an affidavit that the sale has been consummated  
24           and notice has been provided to PLWC's customers;
- 25           •       that Bermuda be authorized to apply and file its tariffs for cross-connection and backflow,  
26           construction, irrigation, and industrial service as requested;
- 27           •       that Bermuda file the aforementioned tariffs by April 30, 1998 with an effective date of

28           <sup>2</sup>       Bermuda plans to disconnect and abandon PLWC's one active well currently in use  
because of its poor water quality. Although PLWC has another well, it too has been abandoned.

May 1, 1998;

- that Bermuda includes an exhibit with its rate application which appropriately sets forth the rate base treatment for PLWC, its expenses, revenues, customer usage and all related matters so that Staff may make a reasonable determination on rates for PLWC's customers due to the differences in existing rates between the two systems;
- that Staff reserves the right to consider the ratemaking effect of PLWC's acquisition in Bermuda's next general rate case;
- that Bermuda continue to charge customers in PLWC's former certificated service area those rates and charges presently authorized in Decision No. 57839 until further Order by the Commission; and
- that following the Commission's approval and closing that Bermuda immediately notifies PLWC's customers of the transfer and that it will be rendering its bills thereafter prior to Bermuda billing PLWC's former customers for service.

18. Staff's recommendations as set forth in Findings of Fact No. 17 are reasonable.

#### CONCLUSIONS OF LAW

1. PLWC and Bermuda are public service corporations within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-281, 40-282, and 40-285.

2. The Commission has jurisdiction over PLWC and Bermuda and of the subject matter of the application.

3. There is a continuing need for the provision of water utility service to the public in PLWC's certificated service area.

4. Bermuda is a fit and proper entity to receive the assets and Certificate of PLWC.

5. Notice of PLWC's and Bermuda's application as described herein was given in the manner prescribed by law.

6. Staff's recommendations, as set forth in Findings of Fact No. 17, are reasonable and should be adopted.

#### ORDER

IT IS THEREFORE ORDERED that the application of Pebble Lake Water Co., Inc. for approval of the sale of its utility assets and transfer of its Certificate of Convenience and Necessity to Bermuda Water Company, Inc., be, and is hereby, granted.

IT IS FURTHER ORDERED that Bermuda Water Company, Inc. shall comply with the terms

1 and provisions of Decision No. 57839 and shall continue to charge water customers in the former  
2 certificated service area of Pebble Lake Water Co., Inc. the existing rates and charges established  
3 pursuant to that Decision until further Order by the Commission.

4 IT IS FURTHER ORDERED that Bermuda Water Company, Inc. shall comply in all respects  
5 with Findings of Fact No. 17.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.  
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11 COMMISSIONER - CHAIRMAN

COMMISSIONER

COMMISSIONER

12 IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona  
13 Corporation Commission, have hereunto set my hand and caused the official seal  
14 of the Commission to be affixed at the Capitol, in the City of Phoenix, this  
\_\_\_\_\_ day of \_\_\_\_\_, 1998.

15 \_\_\_\_\_  
16 JACK ROSE  
EXECUTIVE SECRETARY

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18 DISSENT \_\_\_\_\_  
MES:dap  
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1 SERVICE LIST FOR:

BERMUDA WATER COMPANY, INC. and PEBBLE  
LAKE WATER CO., INC.

2 DOCKET NOS.:

W-02728A-97-0702 and W-01812A-97-0702

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